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THE FINANCIAL CONDITION OF NEBRASKA'S FARM SECTOR

A July 1985 study issued by the Food and Agricultural Policy Research Institute of Iowa State University and the University of Missouri reports, "The financial condition of U.S. agriculture is in a state of crisis". For Nebraska agriculture, that is certainly not an overstatement.

The balance sheet of Nebraska's farming sector shows continued financial deterioration during the first six months of 1985. (See Table 1 on page 2.)

Asset value has dropped further, reflecting primarily real estate value declines of an estimated 8 percent since the first of the year and of about 30 percent since January 1, 1984. Nonreal estate asset values also have moved downward in recent months, however, as a result of lower prices on livestock and stored crop inventories as well as on farm equipment. At the same time, some sell-down of debt has occurred; estimated indebtedness still remains at \$9.6 billion.

As a consequence, the equity level (or net worth) of the ag sector slipped about \$1.5 billion since the first of the year to \$18.1 billion. The level of equity, which is a key indicator of financial well-being over time, has dropped nearly 28 percent since January 1, 1984.

Considering a somewhat longer time perspective, today's owner equity in the state's farming sector is (in nominal terms) about half of the level of early 1981. More than \$16 billion of owner equity has disappeared from the sector's financial statement in less than five years. Such deterioration carries sobering implications, not only for the rural economy, but for the state's economy as well. Those dollars lost represent dramatic and long term declines in economic activity—whether that activity is capital acquisition, consumption purchases, accumulated savings, or a tax base for public services.

Of course, if one also accounts for general inflation and the loss of purchasing power, the decline in the net worth is even more pronounced. In total, Nebraska's agricultural assets today are worth just \$.42 for every \$1.00 of their purchasing power at the beginning of this decade, a 58 percent decline.

The associated financial ratios also show the continuing deterioration. Equity as a percent of assets has declined from about 80 percent in 1981 to nearly 65 percent for the sector. Correspondingly, the average debt-to-asset ratio has jumped from 20 percent to nearly 35 percent. It is believed generally that debt-servicing problems tend to arise for agricultural producers when their debt-to-asset ratios exceed 40 percent.

Obviously, the range of indebtedness around this average also is a critical factor. Here in Nebraska approximately one-third of the farmers have operated historically with no debt. Likewise, there have tended to be relatively modest levels of debt held by nonfarmer asset owners. As a result, for the state's farmers who do operate with debt, the average level is much more severe. Estimates for this group suggest that the average debt-to-asset ratio now exceeds 50 percent.

The individual financial situations within the indebted farmer group are quite varied. Some operate with modest amounts of debt, far below the average for the group; thus, one cannot conclude that all indebted farmers face serious financial problems. Unfortunately, there are also highly leveraged operators whose financial conditions are even more precarious than the overall average. For them, inadequate debt-servicing capacity in combination with depreciating asset values points to an acceleration toward insolvency (total debt exceeding total asset value). Operating losses will devour the remaining net worth of many of these operators within a few short years.

A mid-year 1985 distribution pattern of indebtedness among Nebraska's farmers has been estimated. (See Table 2 on page 3.) Nearly 30 percent of the state's farmers (about 17,500 of the state's 60,000 farmers) are running debt-free operations. Although obviously not experiencing financial stress in terms of debt-servicing and insolvency, nevertheless, this group also has been affected. Depreciating asset values have seriously eroded their net worth positions which in many cases represent savings for retirement and other key needs.

Another 8 percent of the operators (about 4,880) operate today with only small amounts of indebtedness, less than 10 percent of their owned asset value. They account for an insignificant amount of farm sector debt. In many respects, this group is probably quite similar to the debt-free operators, as their major financial concern is not debt-servicing, but asset value decline.

In mid-year 1985, one of every four farm operators (14,400) is estimated to be operating with debt-to-asset ratios of 10 to 40 percent. For those toward the top of this range, the relative debt load probably has become a cause for concern. Adequate debt-servicing capacity, however, generally still will prevail.

In the face of short earnings and falling asset values, increasing numbers of Nebraska farmers are now operating in the danger zone of indebtedness (debt-to-asset ratios of 40 percent or more).

(continued on page 2)

Table 1
Abbreviated Balance Sheet of Nebraska's Farming Sector
(Including farm households)
January 1, 1980-1985^a

Item	1980	1981	1982	1983	1984	Preliminary 1985	
						January 1	July 1
Billions of Dollars							
ASSETS							
Real Estate	28.6	31.5	29.8	26.8	23.6	17.9	16.5
Nonreal Estate	11.7	12.0	12.2	13.1	12.2	11.8	11.2
TOTAL	40.3	43.5	42.0	39.9	35.8	29.7	27.7
CLAIMS							
Real Estate ^b	3.2	3.6	4.0	4.2	4.3	4.2	4.0
Nonreal Estate	4.9	5.1	5.6	7.0	6.4	5.9	5.6
TOTAL	8.1	8.7	9.6	11.2	10.7	10.1	9.6
EQUITY ^c	32.2	34.7	32.4	28.7	25.1	19.6	18.1
Ratio Percentage							
RATIO ^d							
Equity/Assets	79.9	79.9	77.2	72.0	70.1	66.0	65.3
Debt/Equity	25.1	25.2	29.6	38.9	42.6	51.3	53.0
Debt/Assets	20.1	20.1	22.8	28.0	30.0	34.0	34.7

^aPrimary source: *Economic Indicators of the Farming Sector State Income and Balance Sheet Statistics Series*, Economic Research Service, U.S. Department of Agriculture

^bReal estate value data for 1985 based upon changes derived from the 1985 Nebraska Farm Real Estate Market Survey and other sources. Adjustments to other asset and claim items for 1985 based upon projected changes for 1985 U.S. Balance Sheet by Economic Research Service, U.S. Department of Agriculture

^cTotal assets minus total claims. May not compute exactly due to rounding of figures for assets and claims

^dMay not compute exactly due to rounding of figures for assets and claims

(continued from page 1)

More than one out of five farmers (13,000) now are attempting to service debt loads which are 40 to 70 percent of owned asset values. Given the rates of return to agricultural assets (long run average of 3 to 4 percent) and current interest rate levels on outstanding debt, there is no question that many of these operators face serious debt-servicing problems. Moreover, it is estimated that another 17 percent of the state's operators now have debt-to-asset ratios in excess of 70 percent. Farmers in this category face a most difficult challenge correcting their financial problems. For these highly leveraged operators, financial insolvency and termination of the operation are the most likely outcomes unless major adjustments to their financial structure can be made.

In the aggregate, the problem of financial stress is compounded by the extreme concentration of debt volume among the more heavily leveraged farmers. More than three-fourths of the total agricultural debt load (76 percent) is owed by borrowers with debt-to-asset ratios in excess of 40 percent. In short, debt-servicing capacity, given current income conditions and outlook, is highly questionable for a major share of this state's farm debt obligation.

A NATIONWIDE PERSPECTIVE

Financial stress in production agriculture is not unique to Nebraska or this region. Financial deterioration in the form of limited cash flows, debt-servicing problems, and depreciating asset values are occurring throughout most of the United States agricultural sector. At this point in time, however, the degree of severity appears to be most acute in the central part of the nation. (See Table 3 on page 3.)

Nationally in mid-year 1985 about 30 percent of the operators had debt-to-asset ratios over 40 percent and held 63 percent of the outstanding debt. The Central Region, which comprises the Cornbelt States (Ohio, Indiana, Illinois, and Missouri), the Lake States (Michigan, Wisconsin, and Minnesota), as well as the Northern Plains (North Dakota, South Dakota, Nebraska, and Kansas), had clearly the most critical stress; it had the highest concentration of operators in debt/asset classes over 40 percent. Moreover, in the Central Region 75 percent of the debt was estimated to be concentrated in these classes.

There are, no doubt, a number of factors explaining the greater financial severity for production agriculture in the Central
(continued on page 3)

Table 2
Estimated Percentage Distribution of Nebraska Farm Operators,
Farm Debt, and Farm Assets by Relative Debt Levels and
Severity of Financial Stress
July 1, 1985¹

Ratio Debt-to-Assets (Percent)	Degree of Current Financial Stress ²	Percentage Distribution of		
		Farm Operators	Farm Sector Debt	Farm Sector Debt ³
0%	None	29	0	14
1-10%	None	8	2	9
	Some stress			
	for some			
10-40%	operators	24	10	12
	Moderate to			
	severe stress			
40-70%	for most	22	39	23
70%				
and over	Severe	17	37	15

¹Based on preliminary mid-year 1985 balance sheet statistics for the Nebraska farming sector

²A normative evaluation, considering such factors as current debt service capacity, credit collateral, degree of financial solvency, etc

³Percentage distributions of debt and assets will not add to 100 percent since a portion of each is held by nonfarmers

(continued from page 2)

Region. It is the major grain exporting region of the country and has probably experienced more income cutback as U.S. exports subsided in recent years. Also, the magnitude of the 1970s land boom was greatest in many states in the Central Region, and therefore these states have had the largest downward adjustments during this decade. These factors in combination with weather problems, excessive debt buildup, and others have created a situation of financial instability which is particularly acute in the midsection of the country.

LOOKING AHEAD

The key question, of course, is "What lies ahead?" Considerable uncertainty clouds the economic horizon and makes projections difficult. Evidence presented here, however, would certainly suggest that the current financial situation facing the Nebraska farm sector is pervasive and will not quickly disappear. The situation reflects years of developing and could easily take well into the next decade to run its course.

Farm income expectations hinge on ag legislation. If there is policy intervention to help the sector adjust, the direct transition costs to farmers may be lessened. Minimal intervention, however, could wreak havoc with asset markets and financial institutions. Recent estimates suggest that 10 to 15 percent of the agricultural assets may need to be liquidated to achieve financial stability

(Jolly and Doye). In the central United States, this liquidation volume could range as high as 15 to 25 percent. Ag land markets normally transfer 2 to 4 percent of the land annually, so it is questionable whether the land market could function with this turnover in a short time period. Asset values could plunge further and the incidence of farm foreclosure increase significantly.

If inflation remains low, owners of farm assets may experience continued stress. One cannot ignore, however, the federal government's debt situation. The policy direction chosen may monetize federal debt, thus creating accelerated rates of inflation. Owners of tangible assets, such as real estate, benefit in this situation; assets can appreciate in value rapidly. This could mean a dramatic turnaround for the asset markets of the farm sector, and, in the short run, could rescue many from financial insolvency.

The restructuring of production agriculture into a system of reduced debt dependency is inevitable. The agricultural sector will enter the 1990s in a far more lean condition than it entered the 1980s.

Table 3
Distribution of Operators, Assets, and Debts
By Debt-to-Asset Ratio 1985 Situation

Region	Debt-to-Asset Ratio (percent)				
	0-10	10-40	40-70	70+	All
EAST					
Operators	54.1	27.2	13.4	5.3	7.15
Assets	51.4	31.7	12.8	4.1	5.14
Debts	6.6	39.6	31.9	21.9	4.62
SOUTH					
Operators	46.7	30.5	13.6	9.2	40.41
Assets	47.7	34.2	14.2	3.9	33.44
Debts	2.8	40.4	38.2	18.6	27.86
CENTRAL					
Operators	33.2	27.1	21.0	18.7	40.95
Assets	30.8	31.7	24.9	12.7	41.91
Debts	1.8	23.2	39.9	35.1	47.49
WEST					
Operators	38.3	36.3	16.1	9.3	11.49
Assets	27.3	55.3	13.2	4.3	19.51
Debts	3.8	51.7	28.3	16.2	20.02
UNITED STATES					
Operators	40.7	29.5	16.9	12.8	100.00
Assets	36.8	37.1	18.5	7.7	100.00
Debts	2.7	34.5	35.7	26.1	100.00

Source: Jolly, R.W. and D.G. Doye, "Farm Income and the Financial Condition of United States Agriculture," FAPRI Staff Report No. 8-85, July 1985

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Review and Outlook

The nonagriculture sector of the Nebraska economy improved slightly during July 1985. On a month-to-month basis, nonagriculture output increased 0.3 percent according to the Bureau of Business Research' physical volume index. Lackluster performances by the construction and manufacturing industries were responsible for the small jump in the July 1985 physical volume index. Construction activity was down 0.3 percent, and manufacturing output declined 3.8 percent. On a positive note, gains in output occurred in the distributive component (+0.5 percent and government sector (+5.7 percent).

The July 1985 index of prices received by Nebraska farmers for all agriculture products registered no improvement. On a

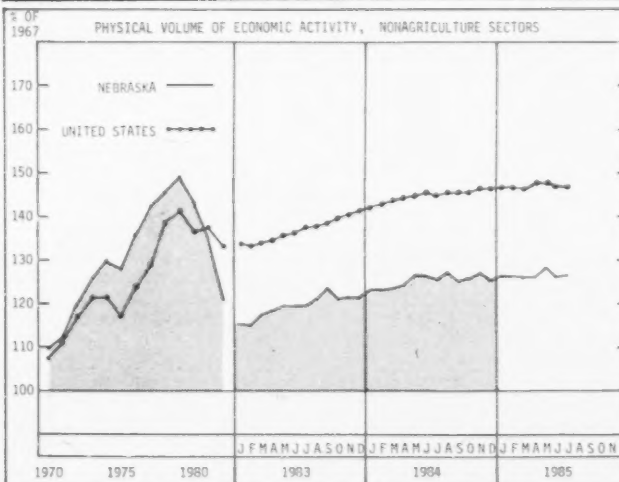
monthly basis, the price index declined 3.0 percent; it has plummeted 15.0 percent since July 1984. Nationally, the index of agriculture prices received was down 0.9 percent in July 1985, with a cumulative decline of 12.7 percent since July of last year. Cash receipts for agriculture commodities for Nebraska and the United States were unavailable.

Nebraska total dollar volume retail sales declined 1.7 percent from July 1984 to July 1985. When adjusted for price changes, retail sales decreased 3.5 percent from July 1984 levels. Motor vehicle sales fared better, declining only 3.2 percent on a dollar volume basis (3.6 percent price adjusted); dollar volume non-vehicle sales fell 1.5 percent (3.5 percent price adjusted).

(continued on page 5)

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes—see Table 5, page 5.

ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES				
1. CHANGE FROM PREVIOUS YEAR				
July 1985	Current Month as Percent of Same Month Previous Year		1985 to Date as percent of 1984 to Date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	NA	NA	NA	NA
Agricultural	NA	NA	NA	NA
Nonagricultural	104.1	104.9	105.2	105.8
Construction	94.3	108.3	95.2	108.5
Manufacturing	95.7	99.0	100.9	100.9
Distributive	105.6	106.4	105.5	107.1
Government	113.1	106.8	113.8	106.8
Physical Volume	NA	NA	NA	NA
Agricultural	NA	NA	NA	NA
Nonagricultural	100.7	101.7	101.7	102.4
Construction	91.4	104.9	91.9	104.7
Manufacturing	96.5	98.9	101.1	100.5
Distributive	102.0	102.8	101.8	103.3
Government	104.7	101.7	104.9	101.6
2. CHANGE FROM 1967				
Indicator	Percent of 1967 Average			
	Nebraska	U.S.		
Dollar Volume	NA	NA		
Agricultural	NA	NA		
Nonagricultural	379.6	448.4		
Construction	292.3	453.0		
Manufacturing	362.7	320.8		
Distributive	387.0	516.6		
Government	425.7	458.6		
Physical Volume	NA	NA		
Agricultural	NA	NA		
Nonagricultural	126.6	147.1		
Construction	81.6	126.5		
Manufacturing	146.4	125.7		
Distributive	119.9	160.0		
Government	152.7	151.0		



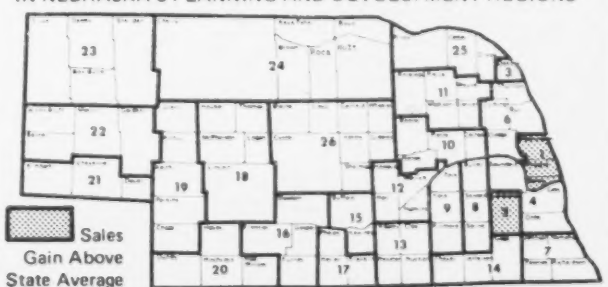
3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES			
Region Number ¹ and City	City Sales ²	Sales in Region ²	
	July 1985 as percent of July 1984	July 1985 as percent of July 1984	1985 to Date as percent of 1984 to Date
<i>The State</i>	98.5	98.3	100.0
1 Omaha	105.7	105.3	106.1
Bellevue	118.9		
Blair	108.8		
2 Lincoln	102.0	101.3	103.8
3 So. Sioux City	103.7	99.4	100.0
4 Nebraska City	100.5	94.2	94.2
6 Fremont	106.3	97.3	96.0
West Point	94.3		
7 Falls City	100.7	95.4	94.3
8 Seward	94.4	99.6	91.8
9 York	103.7	92.9	93.6
10 Columbus	95.4	90.3	92.1
11 Norfolk	99.2	93.6	95.4
Wayne	89.2		
12 Grand Island	94.7	92.6	95.8
13 Hastings	100.6	97.2	94.3
14 Beatrice	97.5	95.6	93.3
Fairbury	93.1		
15 Kearney	97.0	95.0	93.5
16 Lexington	98.7	88.8	91.3
17 Holdrege	80.3	85.5	89.0
18 North Platte	88.7	89.0	92.4
19 Ogallala	94.0	91.3	90.8
20 McCook	95.1	95.2	94.6
21 Sidney	102.7	93.6	98.5
Kimball	93.9		
22 Scottsbluff/Gering	101.4	98.5	97.8
23 Alliance	102.3	100.4	98.3
Chadron	96.7		
24 O'Neill	82.2	85.7	91.6
25 Hartington	94.3	91.2	91.3
26 Broken Bow	95.4	91.3	91.8

¹ See region map below.

² Sales on which sales taxes are collected by retailers located in the state. Region totals include motor vehicle sales; city totals exclude motor vehicle sales.

Compiled from data provided by Nebraska Department of Revenue.

1985 YEAR TO DATE AS PERCENT OF 1984 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



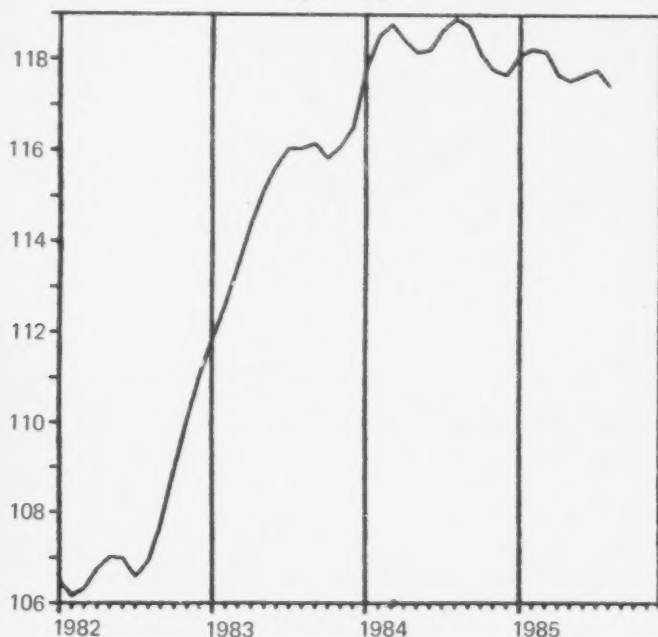
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Nine of twenty-six cities measured by the Bureau's city business index showed positive changes in business activity during July 1985 as compared to July of the previous year. During June 1985, only five cities registered on the positive end of the business index. Sizable gains in building activity maintain Chadron's lead over other cities (+13.4 percent). Bellevue, Blair, Fremont, and Omaha were other leaders. Both Lincoln and Omaha registered positive changes on the July 1985 business index after being on the negative side of the scale during June.

After posting two consecutive gains totaling 0.2 percent in June and July 1985, the Nebraska composite index of leading economic indicators dipped 0.3 percent in August. On a seasonally adjusted basis, declines in construction activity and prices received for Nebraska farm products contributed to the downturn in the leading index. Initial claims for unemployment insurance fell in August, but not enough to influence an upturn in the leading index. (Declines in initial claims contribute to an increase in the composite index.) Preliminary statistics indicate the strong possibility of another downturn in the composite leading index in September.

CHARLES L. BARE

Nebraska Composite Index of Leading Economic Indicators
1977=100



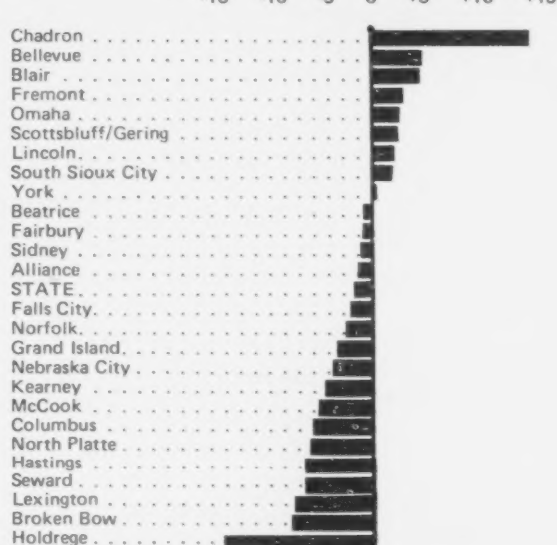
5. PRICE INDEXES

July 1985	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	322.8	103.6	103.7
Commodity component	286.9	102.1	102.2
Wholesale Prices	309.0	99.1	99.6
Agricultural Prices			
United States	227.0	87.3	90.6
Nebraska	216.0	85.0	90.3

*Using arithmetic average of monthly indexes.

Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.

CITY BUSINESS INDEX
Percent Change July 1984 to July 1985



Source: Table 3 (page 4) and Table 4 below.

4. July 1985

CITY BUSINESS INDICATORS

The State and Its Trading Centers	Percent of Same Month a Year Ago		
	Employment ¹	Building Activity ²	Power Consumption ³
The State	99.6	96.0	97.4
Alliance	98.4	81.7	102.3
Beatrice	99.0	144.6	101.4
Bellevue	100.3	57.9	95.8
Blair	100.4	131.6	103.7*
Broken Bow	100.3	29.2	114.3
Chadron	101.5	2,290.9	94.0
Columbus	95.4	75.7	93.0
Fairbury	99.3	206.9	104.6
Falls City	100.3	72.0	101.6
Fremont	100.0	117.4	100.7*
Grand Island	98.8	84.8	102.3
Hastings	99.3	29.4	94.3
Holdrege	100.4	32.0	99.7
Kearney	99.8	56.3	98.5
Lexington	97.7	30.7	103.6
Lincoln	101.0	115.8	98.4
McCook	99.1	60.3	93.3
Nebraska City	99.2	45.7	104.5
Norfolk	98.8	78.1	96.4
North Platte	99.9	90.4	100.2
Omaha	100.3	105.4	94.4
Scottsbluff/Gering ..	99.9	154.7	97.4
Seward	99.8	48.4	109.7
Sidney	99.1	81.6	115.1
So. Sioux City	99.2	113.2	107.6
York	99.0	99.2	107.2

¹ As a proxy for city employment, total employment for the county in which a city is located is used.

² Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.

³ Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

BEA ECONOMIC PROJECTIONS

From 1983 to 2000, real personal income in Nebraska is projected to increase 2.4 percent per year, according to the Bureau of Economic Analysis of the United States Department of Commerce. The projection for the state is 0.2 percent below the national average and slightly above that of the Plains region. Nebraska's projected gain in real income ranks 32nd nationally and 3rd among the Plains states behind Minnesota (+2.7 percent) and Kansas (+2.5 percent).

Total Personal Income-Plains Region Historical Data and Projections Millions of 1972 Dollars

	1983	1990	2000
Iowa	14,546	18,063	21,158
Kansas	13,741	17,204	20,753
Minnesota	23,090	29,183	36,245
Missouri	25,664	31,457	37,342
Nebraska	8,356	10,333	12,561
North Dakota	3,716	4,526	5,527
South Dakota	3,228	3,971	4,821

Source: Bureau of Economic Analysis, U.S. Department of Commerce

Per capita personal income, a measure of economic well-being, is expected to grow 1.9 percent annually from 1983 to 2000 in the state. State per capita income in real dollars is forecasted to swell from \$5,236 in 1983 to \$7,244 by the year 2000. Per capita income for the Plains region is projected to be \$7,262 by 2000, 98.5 percent of the national average. The only Plains states projected to exceed the national average per capita income over the projection period are Kansas and Minnesota.

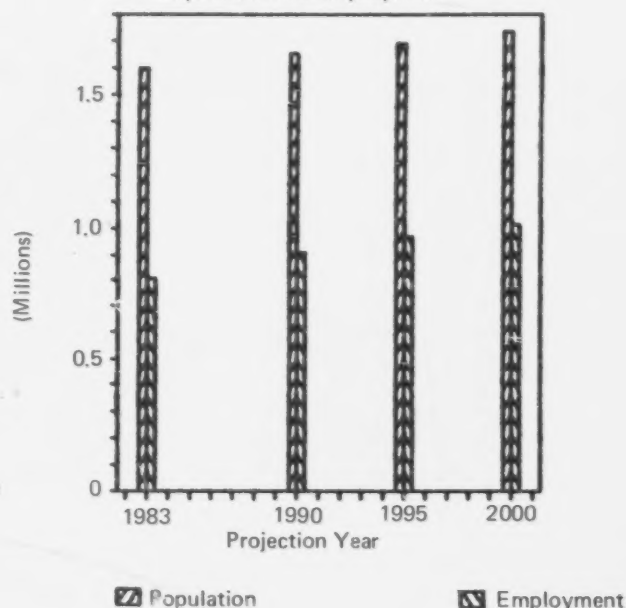
Mining and services will be the fastest growing sectors of the Nebraska economy from 1983 to 2000, with projected annual growth rates of 3.9 percent and 3.8 percent; construction and manufacturing follow, with projected earnings growth rates of 3.6 percent. Lower growth rates are forecasted for trade (+2.4 percent) and government (+1.7 percent).

Employment in Nebraska is projected to rise from 807,400 in 1983 to 1,014,200 by the year 2000. These employment stats represent an overall gain of 25.6 percent or an increase of 1.4 percent per year. Nebraska's population is projected to jump 8.6 percent from 1983 to 2000. Population is expected to swell by 138,000 persons, an increase of 0.5 percent annually.

BEA projections assume no major policy changes and are based on past economic relationships. Population projections and projections of personal income and employment for 57 industries target the years 1990, 1995, 2000, 2005, 2015, and 2035. Projected data for the United States, the fifty individual states, and the District of Columbia are available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

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BEA Projections-Nebraska
Population and Employment



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